

Labor

supply and demand

It isn't easy to measure

We call it a labor “market” for a reason. The supply and demand for labor in the marketplace is very much like the supply and demand for any other kind of good or service.

————— **By Lecia Parks Langston** —————

Econ 101

Just think back to your old Economics 101 class. Remember the law of supply and demand? As the price rises, the quantity “demanded” falls while the quantity “supplied” rises. Economists like to illustrate this principle with graphs. The “demand” curve maintains a negative or declining slope and the “supply” curve generates a positive or increasing slope. (See chart.)



We're all pretty familiar with the recent effects of demand and supply on the gasoline market. As hurricanes and war cut back on oil production (or the supply) and demand increased from other countries and gas-guzzling vehicles, the price of gas at the pump shot up.

The same thing can happen in the labor market. If certain types of skills are in short supply and the demand for those skills increases, the wage rates for that occupation will rise. If the supply of workers in a particular job is abundant, don't count on it receiving high wages anytime soon.

On the Curve. . .

The supply of labor—just like the supply for other goods/services—merely indicates how willing workers are to take jobs at various wages. This will vary from worker to worker.

The demand for labor represents how much labor an employer desires at different prices (wage rates). The demand for labor by each employer will differ based on demand for the product it creates, preferences, and alternative resources.

Wage rates are determined just like the price of any other good—the intersection of the supply and demand curves indicates the “equilibrium” wage for the market—where the number of workers demanded by the employers is met by the number of workers willing to work at that wage. (See chart.) Of course, this explanation is pretty simplistic and infers no government interference in the market.

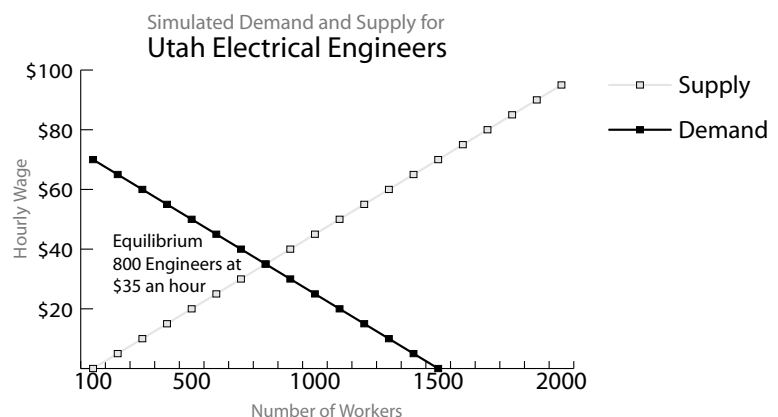
It's Not Easy. . .

Like most things economic, measuring supply and demand for labor or occupations in the real world is difficult. Demand is perhaps the easier of the two. DWS surveys measure the number of workers who are employed by occupation and industry. The number of employed workers is a fairly good indicator of how many workers employers demand at a particular wage rate.

Measuring the overall supply of workers is also quite simple. We simply measure the labor force—those at work or actively seeking work. However, when we get down to individual occupations, quantifying the supply of workers becomes much more difficult.

Supply is Tricky

Here's one reason. Right now, I work as an economist. But, given the right wages and other enticements, I can also find employment as a technical writer, a public relations person, a research analyst, a statistician, a manager, etc. And, I could also take a lot of jobs that require even fewer skills—maid, cashier, janitor, fast-food worker. In other words, given the right circumstances, I could join the supply of workers for many occupations. You see the problem.





Tales Told Out of School

One source of “supply” data comes from the number of graduates or completers of training programs. Of course, this group represents only a portion of the “supply” of workers for a given occupation. Think about all those folks who graduated in previous years—they also represent the supply of labor for a given occupation. Other training graduates may continue their education, and postpone entering the job market. Some folks just change their minds and don’t want to work in their chosen field.

In addition, matching fields of study to occupations is seldom clean—particularly for the college-educated population. While some courses of study relate directly to an occupation (like nursing), many do not. In other words, there’s no uncontaminated way to match a field of study with a particular job. For example, many employers are looking for college graduates regardless of their field of study.

What’s another problem with these numbers—particularly on a state level? People move. Some students move to Utah to attend school with no intention of staying here for work. Just think of that big, private university in Utah County. Other long-time residents may move elsewhere to take advantage of better opportunities—eliminating themselves from Utah’s labor supply.

What other measures of occupational labor supply are available? Those individuals registered with the Department of Workforce Services employment services list their areas of occupational expertise. But again, this represents just a fraction of the total supply of labor for any given occupation.

You get my point? Determining inequities in the supply and demand for labor in a particular occupation is extraordinarily difficult given current resources.

The reality is that in the “real world” with a fluid and ever-changing labor market, we don’t have all the answers (or data) about labor supply and demand. However, what we do know is that the demand for occupations with higher-level skills continues to increase in this state and across the nation.

Kris Maher writing in the “Outlook” feature of the Wall Street Journal (November 22, 2004; page A2) notes, “Workers can’t find jobs, and companies can’t find workers. A Labor Department report released Friday on employment trends by state showed that nearly 250,000 workers in Pennsylvania were unemployed in October. Yet, according to the Pennsylvania Department of Community and Economic Development, a state agency whose business it is to attract and retain businesses, 24 percent of businesses in the state can’t find enough qualified workers. The mismatch is explained by what economists call a “skills gap” that is leading to labor shortages and wage inflation—in some sectors of the economy, even as other sectors experience excess labor, which is putting downward pressures on wages in those industries.”